

ECON 5352: Housing Economics
2022-23 Spring
Department of Economics, HKUST

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Course Description

Housing, unlike other goods, has its unique characteristics in terms of heterogeneity, durability, and spatial fixity. These suggest that conventional economic concepts need to be readdressed in order to analyze the microeconomic issues of housing. In addition, a significant number of households borrow mortgages to finance their home purchases. A substantial collapse in housing prices might lead to negative equity for leveraged households and reduce their consumption and investment thereafter. The macroeconomic implication of housing market dynamics can be significant to the aggregate economy. The first part of the course focuses on microeconomic issues covering housing demand and supply analysis, models of housing and rental markets, and rationales/effects of public housing policies. The second part emphasizes the macroeconomic issues including the stylized facts on housing market dynamics, causes and consequences of housing market fluctuations, and housing market spillovers. The course objective is to develop analytical framework by which students can address both the microeconomic and macroeconomic issues of housing.

Prerequisites

ECON 5130 AND ECON 5140 AND ECON 5280

Course Intended Learning Outcomes (CILOs)

Upon successful completion of this course, students will be able to:

1. Apply the microeconomic concepts and models to conduct supply and demand analysis of housing markets (PILO 4.2).
2. Understand the economic rationales and effects of public policies on housing (PILO 1).
3. Apply the macroeconomic concepts and models to analyze the dynamics and spillovers of the housing market (PILO 4.2, 6.2).

Teaching Approach

Teaching & Learning Activities	Roles in the Course	Course Learning Outcomes Addressed
Lectures	Explain key concepts and models to students.	1, 2, 3
In-class Discussion	Develop critical thinking in analyzing economic questions.	1, 2, 3
Group Project	Conduct literature review/case study analysis.	1, 2, 3

Assessment Scheme

- Case Study Analysis (Group work*, due on April 10): 15%
- Literature Review Project (Group work*, due on May 1): 50%
- In-class Test (Individual, May 8): 35%

*Please form a group of maximum 5 members. Please email the group information (names and student numbers) to the instructor by Feb 16 (the last date of add/drop period). To prevent free-rider problem, we may conduct peer evaluation to assess individual contribution to the group.

Course Outline

1. Housing Demand, Supply, and Equilibrium Analysis (Weeks 1-3)
 - Housing as a standard commodity
 - Housing as a heterogeneous commodity
 - Housing in a spatial context
2. Role of Government in the Housing Market (Weeks 4-5)
 - Rationales for housing policies
 - Policies for equity and efficiency
 - Effects of housing policies
3. Housing and the Macroeconomy (Weeks 5-6)
 - National models of housing and mortgage markets
 - Stylized facts on housing market dynamics
4. Housing Market Fluctuations and Spillovers (Weeks 6-9)
 - Determinants of housing market booms and busts
 - Sources and consequences of housing market fluctuations
 - Business cycle models with housing market
5. Subprime Mortgage Crisis and Financial Crisis of 2007-2009 (Weeks 9-10)
 - Causes and consequences, and policy implications
6. Applications for the Housing Markets in Hong Kong and China (Weeks 10-11)
 - Modeling Hong Kong residential property prices
 - China's Housing Market: Challenges and Policy Implications

Note: This is a tentative course outline. The instructor may fine-tune the topics while ensuring the course objectives being achieved.

Learning Resources

There is no required textbook. We use lecture slides for teaching. All teaching materials (including lecture slides, references of lecture slides, and supplementary reading materials) are downloadable from CANVAS.

The content of the course draws on various sources, including books, academic articles, and policy papers. Please refer to the following list for your reference. Those references marked with an asterisk are used heavily in preparing the lecture notes.

References:

- *Agnello, L., Schuknecht, L., 2009. Booms and Busts in Housing Markets: Determinants and Implications. *ECB Working Paper Series 1071*, European Central Bank.
- Ahearne, A., Ammer, J., Doyle, B., Kole, L., Martin, R., 2005. House Prices and Monetary Policy: A Cross-Country Study. *International Finance Discussion Paper 841*, Washington: Board of Governors of the Federal Reserve System.
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- Koss, R., Shi, X., 2018. Stabilizing China's Housing Market. *IMF Working Paper WP/18/89*.
- *Liu, Z., Wang, P., Zha, T., 2013. Land Price Dynamics and Macroeconomic Fluctuations. *Econometrica 81* (3), 1147–1184.
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- *Ng, E.C.Y., 2015. Housing Market Dynamics in China: Findings from an Estimated DSGE Model. *Journal of Housing Economics 29*, 26–40.
- Ng, E.C.Y., Feng, N., 2016. Housing Market Dynamics in a Small Open Economy: Do External and News Shocks Matter? *Journal of International Money and Finance 63*, 64–88.

Shiller, R.J., 2009. *The Subprime Solution: How Today's Global Financial Crisis Happened and What to Do About It*. Princeton University Press, Princeton.

Academic Policy

Dishonesty or plagiarism will not be tolerated. Any student violating HKUST Academic Integrity and Honor Code (<https://registry.hkust.edu.hk/resource-library/regulations-student-conduct-and-academic-integrity>) will be subjected to disciplinary procedure.